

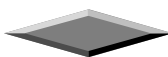


***Program Compliance Office
Cal Grant Review Report***

2000-01 Award Year

**Modern Technology College
Program Review ID #80202539100**

**6180 Laurel Canyon Boulevard, Suite 101
North Hollywood, CA 91606**



Program Review Dates:	March 27, 2002 – March 29, 2002
Auditors:	Ana Marquez (916) 526-8035 Nati DeGroot (916) 526-6413
Report Approved by:	Charles Wood, Manager Program Compliance Office (916) 526-8912

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AUDITOR'S REPORT

SUMMARY

We reviewed Modern Technology College administration of California Student Aid Commission (Commission) programs for the 2000-01 award year.

The institution's records disclosed the following deficiencies:

- Satisfactory Academic Progress quantitative measure not meeting federal requirement.
- Tuition and fees charges less than Cal Grant Award.
- Cal Grant tuition and fees disbursed incorrectly.
- Interest Earned on Cal Grant Funds and not remitted to the Commission.

BACKGROUND

Through institution compliance reviews, the administration of Commission programs is evaluated to ensure program integrity with applicable laws, policies, contracts and institutional agreements as they pertain to the following grant programs administered by the Commission:

Cal Grants

A, B, and C

The following information, obtained from the institution and Commission database, is provided as background on the institution:

A. Institution

- Type of Organization: Proprietary Institution, For Profit
- President/CEO: Gary Kerber
- Accrediting Body: Accrediting Commission of Career Schools/Colleges of Technology
- Size of Student Body: 412

B. Institutional Persons Contacted

- Catherine Berry: Financial Aid Director
- Mark Newman: Executive Director
- Kim Gibson: Special Project Manager
- Connie Lazo: Fiscal Officer

C. Financial Aid

- Date of Prior Commission Program Review: None
- Branches: None
- Financial Aid Programs: Federal: Direct Loan Programs; Workstudy; Pell; SEOG
State: Cal Grant A, B and C
- Financial Aid Consultant: None

AUDITOR'S REPORT (continued)

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our review is to provide the Commission with assurance that the institution adequately administered the Commission programs and their compliance with applicable laws, policies, contracts and institutional agreements as they pertain to the grant programs administered by the Commission.

The review focused on, but was not limited to, the following areas:

- A. General Eligibility
- B. Applicant Eligibility
- C. Fund Disbursement and Refunds
- D. Roster and Reports
- E. File Maintenance and Records Retention
- F. Fiscal Responsibility and Program Funds

The specific objectives of the review were determining that:

- Administration systems have adequate controls to ensure that grant funds received by the institution are secure.
- Administration systems have adequate controls to ensure that grant payments are accurate, legal and proper.
- Accounting requirements are being followed.

The procedures performed in conducting the review included:

- Evaluating the current administrative procedures through interviews and reviews of student records, forms and procedures.
- Evaluating the current payment procedures through interviews and reviews of student records, forms and procedures.
- Reviewing the records and grant payment transactions from a sample of 15 Cal Grant students who received a total of 1 Cal Grant A, 4 Cal Grant B, and 10 Cal Grant C awards within the review period. The program review sample was randomly selected from the total population of 32 recipients.

This review was conducted in accordance with **Government Auditing Standards** issued by the Comptroller General of the United States. However, the procedures did not constitute a review of the institution's financial statements

The review scope was limited to planning and performing procedures to obtain reasonable assurance that Commission grant funds were administered according to the applicable laws, policies, contracts and institutional agreements. Accordingly, transactions were examined on a test basis to determine whether grant funds were expended in an eligible manner. The auditor considered the institution's management controls only to the extent necessary to plan the review.

AUDITOR'S REPORT (continued)

**OBJECTIVES,
SCOPE AND
METHODOLOG
Y (continued)**

This report is written using the exception-reporting format, which excludes the positive aspects of the institution's administration of the California grant programs.

The names and social security numbers of the sample of students reviewed have been excluded from the body of this report and have been replaced by identifying numbers. Attachment A is a listing of the students by name, social security number and grant type.

CONCLUSION

In conclusion, except for the deficiencies cited in the Findings and Required Actions section of this report, the institution administrated the Commission grant programs in accordance with the applicable laws, policies, contracts and institutional agreements as they pertain to the Commissions grant programs.

**VIEWS OF
RESPONSIBLE
OFFICIALS**

The findings were discussed with agency representatives in an exit conference on March 29, 2002. The agency staff concurred with all findings

March 29, 2002

Charles Wood, Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

A. GENERAL ELIGIBILITY	FINDING: <u>Satisfactory Academic Progress Quantitative Measure Not Meeting Federal Requirement</u>
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An examination of the institution's written satisfactory academic progress (SAP) policy for the review period revealed that the institution was not complying with federal regulations.

DISCUSSION:

Title IV Federal regulations, require an institution to establish, publish and apply reasonable standards for measuring whether an otherwise eligible student is maintaining SAP. While reviewing the institution's SAP policy it was revealed that the following federal requirement for the quantitative component was not adequately addressed.

A quantitative component consists of a maximum timeframe in which a student must complete his or her educational program within the 150 percent of the published length of the educational program. The school must divide the maximum timeframe into equal evaluation periods called increments. An increment cannot be longer than half of the program or one an academic year, whichever is less. Each increment must designate the minimum percentage or amount of work that a student must successfully complete in order to complete his or her educational program within the maximum timeframe. In addition, maximum timeframe progress must be reviewed at least once per academic year.

The school's Catalog disclosed that all students must complete their program in a period not exceeding 1.5 times the normal length of the program as measured in credit hours attempted. The institution has increments that measure the Qualitative portion (minimum GPA) but fails to disclose the Quantitative Standard (required credit completion percentage).

Modern Technology College does not disclose to students what is **the minimum (required credit completion percentage) schedule of work to be successfully completed at the end of each increment** to complete the program within the maximum time frame. For instance, the publish length for Medical Assistant Diploma program is 44 credit hours, the maximum time frame established by the school must not exceed 66 attempted credit hours (44×1.5). . In order to be in compliance, a completion rate of 67% ($44/66=67\%$) would be necessary for the student to complete the program within the maximum timeframe. However, the school decides which way of measuring the length is most appropriate. The school is not required to set fixed number of hours or credits that must be completed in each increment. Instead, the school can require the student to complete a certain percentage of hours or credits he or she attempts. By setting a percentage rather than fixed number of hours or credits, the school can easily adjust for differences in enrollment status from student to student or from one year to the next. Another option, the school has is to use a graduated completion percentage for each year of enrollment. This method would coincide the Qualitative component. No observations of non-compliance with SAP quantitative component were observed from the student sample reviewed.

REFERENCES:

FINDINGS AND REQUIRED ACTIONS (continued)

34 CFR 668.16(e)(2)(ii)(B)(C)
2000-01 Financial Aid Handbook, Student Eligibility, Chapter 1-21 to 1-23
Institutional Agreement III.A.1
Cal Grant Manual, Chapter 9, page 9-5
Modern Technology College, Catalog-Calendar Year 2000

REQUIRED ACTION:

Modern Technology College is to develop a quantitative measure component that fully meets the federal Title IV requirements. The quantitative measure component must disclose the minimum (required credit completion percentage) schedule of work to be successfully completed at the end of each increment. In addition, school is advised to reference the above-cited regulations and the exceptions noted within this report.

Please submit a copy of the updated policy in response to this issue as well as the method by which the school's revised policy will be disseminated to all current and prospective students.

INSTITUTION RESPONSE:

July 24, 2002

Enclosed is the revised Academic Progress Standards for your review. The school will disseminate the revised policy as follows:

Prospective Students:

Prospective students will receive the revised policy as an addendum to the current catalog. At the next catalog publishing, the new policy will be included in the catalog.

Current Students:

Current students will receive the revised policy as an addendum to the catalog. The addendum will be issued to the students by the class instructors. In addition, the school will post the revised policy in a common area for students.

October 7, 2002

In response to your letter dated September 5, 2002 and our recent phone call, I am enclosing our revised satisfactory academic progress policy and explanations of how the policy will be applied. We feel that the examples provided demonstrate that the policy satisfies federal regulations. Assuming that this is true, we would appreciate timely approval of the policy since printing of our 2003 catalogs is on hold.

FINDINGS AND REQUIRED ACTIONS (continued)

November 4, 2002

Enclosed is the revised satisfactory progress policy for Modern Technology College. As we discussed, we have changed the percentage of successful completion required at 100% of program hours attempted to 70%. As we agreed, this should now satisfy the requirements.

November 18, 2002

Terry Guthrie indicated that you have some additional concerns regarding the satisfactory progress policy submitted for Modern Technology College. According to Mr. Guthrie, you believe that at 100% of the program attempted you must have a CGPA of 2.0

Please find the research indicated below regarding the federal requirements.

The Administrative Capability regulations found in 34 CFR 6683.16 (e) specify that the school must establish a qualitative component and a quantitative component to measure satisfactory progress. While the maximum time frame is established in regulation as 150 percent of the published time frame of the program, that section of the regulations does not indicate a minimum qualitative measure

Under Subpart C-Student Eligibility, 34 CFR 668.34 (b) specifies that for a student to be making satisfactory academic progress, the student must have a grade point average of at least a "C" or ITS EQUIVALENT, or have academic standing consistent with graduation requirements for the institution by the end of the second academic year. (This same language is found in Section 484 (c) of the Higher Education Act (REA). In addition, the Federal Handbook also states that a school could even permit a lower standard than 2.0 CGPA at graduation; but rather, it is the accrediting agency's policy to require a 2.0 CGP A at the point of graduation.

The policy that was sent to you permits progression toward the graduation requirement of 2.0 that is mandated by the accrediting agency. The policy requires the 2.0 CGPA standard at the end of the second academic year. The policy meets the requirements of the accrediting agency and the regulations of the Department.

December 16, 2002

I have continued to review the information in the Satisfactory Academic Progress Quantitative Measure policy, the program review response, and the notes from our prior phone conversations

I believe that our policy does meet the federal requirements, regarding the Quantitative Measures. I unable to locate guidance which prohibits the policy as stated.

Please provide me with the federal regulation citation regarding satisfactory academic policy if you are in disagreement

FINDINGS AND REQUIRED ACTIONS (continued)

March 3, 2003

As you suggested in your letter dated February 3, 2003, we have contacted Region IX of the U. S. Department of Education. We have been in communication with Marianna Deeken and Martina.

As a result, we have obtained agreement from Region IX (via email- see attached) that Modern Technology's Satisfactory Academic Progress policy is in compliance with Title IV regulations. This satisfactory academic progress policy, as disclosed in the catalog, does not violate any Title IV rules, according to Ms. Deeken

AUDITOR RESPONSE:

After further research with Region IX (Marianna Deeken) and discussions with the Sharon Bob it was clarified that the institution policy does meet the minimum requirement.

Please note the following error in your SAP table it should be **of** not **or**.

Evaluation Point	Evaluation Point
25% or Program Attempted	25% of Program Attempted
50% of Program Attempted	50% of Program Attempted
100% or Program Attempted	100% of Program Attempted

The institution's action is deemed acceptable and no further action is required.

B.APPLICANT ELIGIBILITY

FINDING: Tuition And Fees Charges Less Than Cal Grant Award

A review of 15 student files revealed 1 case where the Cal Grant A award exceeded the actual tuition and fee charges.

DISCUSSION:

The California Education Code indicates that Cal Grant A awards shall be used only for tuition and student fees. Based on a recipient's financial need, the Commission makes tuition/fee payments up to a maximum annual award **not to exceed the school's actual tuition/fee charges**.

Student No. 3 received a Cal Grant A award in the amount of \$9,708 for award year 2000-01. According to the enrollment agreement, student No. 3 received an "employee dependent waiver" which covered the entire tuition amount of \$14,935 for the program Business Administration. Since Cal Grant A funds are solely for tuition, the funds are deemed ineligible.

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

California Education Code 69532 (a)
Institutional Agreement, II.A
Institutional Agreement, III.B.5
Institutional Agreement, Article III.C.2
Cal Grant Manual, Chapter 5, pages 5-11 and 5-20

REQUIRED ACTION:

The institution is required to repay the ineligible amount of **\$9,708** for student No. 3. Repayment instructions are located at the conclusion of this report.

The institution must also provide the written policies and procedures that will be put into place to ensure that Cal Grant funds for tuition only will not exceed the actual tuition and fee charges.

INSTITUTION RESPONSE:

Enclosed is the repayment for the ineligible funds in the amount of \$ 9,708.00, check # 377808, for the 2000-01 award year.

Modem Technology College's policy regarding the Cal Grant funds is as follows:

The Financial Aid Office will award Cal Grant funds to eligible students, based on the recipient's financial need, up to the maximum annual award. The school will verify that the awarded amount does not exceed the actual tuition and fees charged to the student.

The Financial Aid Office will verify the Cal Grant disbursements are not in excess of the actual tuition and fees charged to the student prior to authorizing the disbursement to the student's account.

AUDITOR RESPONSE:

The institution's action is deemed acceptable and no further action is required.

C. FUND DISBURSEMENT & REFUNDS

FINDING: **Cal Grant Tuition and Fees Disbursed Incorrectly**

A review of 15 student files revealed 4 cases where Cal Grant tuition and fees funds were disbursed to the student for living expenses.

DISCUSSION:

The California Education Code indicates that Cal Grant A awards shall be used only for tuition and student fees. Based on a recipient's financial need, the Commission makes tuition/fee payments up to a maximum annual award **not to exceed the school's actual tuition/fee charges**. Cal Grant B awards shall be used only for tuition, student fees, and subsistence (living allowance) costs in an instructional program of no less than one academic year. Subsistence costs are living expenses,

FINDINGS AND REQUIRED ACTIONS (continued)

transportation, supplies and books. Cal Grant C awards shall be used only for occupational or technical training in a course of no less than four months. Additionally, Cal Grant C pays tuition /fees and books and supplies is for training-related expenses such as required tools, special clothing, books, equipment, supplies, and local transportation.

In reviewing the student account ledgers it was disclosed that Modern Technology College would apply the tuition and fee portion to the students' account, which would lower the balance account. The school would reverse the Cal Grant tuition and fees funds and pay the student for living expenses, which raise the account balance. This practice was observed for the following student Nos. 6, 11, 12, and 15.

For example, student No. 6 had a balance of \$4,672 as of 11/07/00 according to the student's ledger account. On 12/15/00 the student 's account was credited with Cal C in the amount of \$1,056 (\$864 for tuition and \$192 for books and supplies), which decreased the balance to \$3,616 (\$4,672 - \$1,056). Subsequently, the school disbursed to the student \$1,056 (warrant no. 290275) for living expenses, which raised the balance to \$4,672. Cal Grant C books and supplies portion of \$192 is optional to give to the student as mention above. Since the school charges up front the required tools, special clothing, books, equipment, and supplies the school can retain the \$192 portion. However, the student can use the \$192 for transportation if student shows need. Moreover, for student Nos. 11, 12 and 15 the exact process was practiced.

In summary, the purposes of Cal Grant tuition and fees funds are to pay for the cost of the program, not for living expenses. In conversation with the institutional staff, the school stated that they were not aware Modern Technology College had the authority to decline the student from requesting the tuition/fees funds for living expenses.

REFERENCES:

California Education Code 69532 (a) (b) (c)
Institutional Agreement, Article II.A
Cal Grant Manual, Chapter 2, page 2-1 to 2-8
Cal Grant Manual, Chapter 5, page 5-7 to 5-9 and 5-20

REQUIRED ACTION:

The institution must submit copies of the policies and procedures to ensure students tuition and fees awards are only used to pay actual tuition fees charges and may not be disbursed directly to students for living expenses.

INSTITUTION RESPONSE:

Modem Technology College's policy regarding the Cal Grant disbursements is as follows:

FINDINGS AND REQUIRED ACTIONS (continued)

When a student is awarded Cal Grant funds after receiving Federal Direct Loan Program (FDLP) funds, the Financial Aid Office will notify the student that the FDLP funds will be returned as the Cal Grant funds are received and posted to the student's account. The Financial Aid Office will also review the tuition and fees charged to the student and verify that the Cal Grant funds do not exceed this amount.

Any Cal Grant funds in excess of the student's tuition and fees will be refunded to the Cal Grant program.

Any students receiving Cal Grant awards/funds and requesting living expense funds during their enrollment from the Cal Grant program will be denied.

The Financial Aid Office and the Bookkeeper will be responsible for double checking all living expense requests to verify that the student is not receiving Cal Grant A and C funds as living expenses.

AUDITOR RESPONSE:

The institution's action is deemed acceptable and no further action is required.

If the institution is going to implement the following process: "When a student is **awarded Cal Grant funds after receiving Federal Direct Loan Program (FDLP) funds, the Financial Aid Office will notify the student that the FDLP funds will be returned** as the Cal Grant funds are received and posted to the student's account." It is recommended that the school research to ensure this process is acceptable under the FDLP regulations. Additionally, the student should be notified of the process and obtain proper authorization to return credit balance to the FDLP funds.

F. FISCAL RESPONSIBILITY FOR PROGRAM FUNDS

FINDING: Interest Earned On Cal Grant Funds Not Remitted to the Commission

An examination of the Cal Grant fund account revealed that interest is earned on Cal Grant funds and is not remitted to the Commission according to the Institutional Agreement.

DISCUSSION:

As indicated in the Institutional Agreement signed by the institution's president, all interest earned on Cal Grant funds must be returned to the Student Aid Commission on behalf of the State regardless of any agreement between the bank and the institution relative to bank charges or co-mingling of funds. The exception is if an invoice is \$5.00 or less, the interest refund is not required.

In reviewing the accounting documents, bank statements, student ledger accounts, and student cancelled checks it was disclosed that Cal Grant funds are kept in an interest-bearing account. The Fiscal Officer explained the accounting procedure of Cal Grant funds, which revealed funds do accrue interest. The following is the process explain to the Auditor during the review:

FINDINGS AND REQUIRED ACTIONS (continued)

Period September 1, 2000 to June 30, 2001

Funds are received by the Modern Technology College, the check is held by the accounting office until the Financial Aid Director issues a roster. The roster identifies which students will be receiving the Cal Grant Funds. The Cal Grant check is deposited into People's Bank, a depository account only, which does not accrue interest bearing. Subsequently, the accounting office credits the students' account. A roster is sent to Headquarters indicating the students' accounts have been credited. Headquarters sweeps the funds into their main account, which is Suntrust Bank Account No. 8800541271 and accrues interest.

Note, once the school credits the students' account the funds are then reversed to the student for living expenses. *The check that was given to the student for living expenses is written from Suntrust Bank Account 8800541271 (main the account-accrues interest).* The timeframe from the time the funds are credited to the students' account and disbursed for living expenses takes an average of two weeks in all cases, which accrues interest. Since the funds are given to the student for living expenses the funds are still considered the Commission funds until the funds are given to the student.

Period July 1, 2001 to Present

Cal Grant Funds are now deposited into a depository account, Suntrust Bank Account No. 8800789201, non-interest bearing account. However, the same exact accounting procedure steps are taken as explained above. Therefore, the Cal Grant funds accrue interest during the time the funds are in the main account, Suntrust Bank Account 8800541271.

REFERENCES:

Institutional Agreement Article II.C and III.C.1
Cal Grant Manual, Chapter 9, page 9-11

REQUIRED ACTION:

Beginning with July 1, 2000, the institution must return on behalf of the State of California all interest accrued on Cal Grant funds. The institution must compute the amount of interest earned by the Cal Grant funds and if the interest is co-mingled with other institutional funds, then the funds must be differentiated. Submit payment as directed in the general payment instructions and include documentation to support the amount returned.

In further response, the institution is instructed to provide the written procedures and internal controls that will be put into place to ensure that interest is returned as required. These procedures should include the rate used to calculate Cal Grant interest, the time frame for returning interest, and the titles of staff responsible for ensuring that the interest is returned to the Commission.

INSTITUTION RESPONSE:

FINDINGS AND REQUIRED ACTIONS (continued)

In determining the amount of interest to refund to the Commission, the school chose to use the time frame determined in the Program Compliance Report of two weeks (14 days) per student.

Period September 1, 2000 to June 30, 2001:

Modem Technology College received \$68,286.00 in Cal Grant funds for the period reflected above. The school is basing the interest calculation as follows:

$(\$68,286.00 \times 4\%) / 360 \text{ days} \times 14 \text{ days} = \$106.23 \text{ Finding Amount}$

Period July 1, 2001 to June 30, 2002:

Modem Technology College received a total of \$174,849.00 in Cal Grant funds. Of the \$174,849.00, the school determined which students received Cal Grant funds and Living Expenses. The dollar amount of this determination is \$74,086.63. The school is basing the interest calculation on the amount of living expenses these students received.

$(\$74,086.63 \times 4\%) / 360 \text{ days} \times 14 \text{ days} = \$115.25 \text{ Finding Amount}$

Total Dollar Amount for Finding F: \$221.48

In regards to the non-interest bearing bank account, Modem Technology College has established a new bank account. The Cal Grant funds will be sent via Electronic Funds Transfer (EFT) to the new non-interest bearing account.

Although the College believes the living expenses will be reduced based on the information that we received during the review process, if living expense requests are processed, the bookkeeper will calculate the interest owed to the Commission at the end of each month. This monthly interest amount will be returned to the Commission.

AUDITOR RESPONSE:

The institution's action is deemed acceptable and no further action is required.

ATTACHMENT A - STUDENT SAMPLE
